

Memorandum

*Flex your power!
Be energy efficient!*

To: KELLY TAKIGAWA
Chief (Interim)
Division of Procurement and Contracts

Date: August 31, 2010

File: P3000-392

CLARK PAULSEN
Chief
Division of Accounting

ORIGINAL SIGNED BY:

From: GERALD A. LONG
Deputy Director
Audits and Investigations

Subject: Final Report – CAL-Card Transactions Evaluation

Attached is the Audits and Investigations' final report of the CAL-Card program. Your response has been included as part of our final report.

Please provide our office with status reports on the implementation of your audit finding dispositions 60, 180, and 360 days subsequent to the report date. If all findings have not been corrected within 360 days, please continue to provide status reports every 180 days until the audit findings are fully resolved.

We thank you and your staff for their assistance provided during this audit. If you have any questions or need additional information, please call Laurine Bohamera, Chief, Internal Audits at (916) 323-7107, or me at (916) 323-7122.

Attachment

c: CMcKim, Director
MDougherty, Chief Deputy Director
CPaulsen, Chief, Division of Accounting
KTakigawa, Chief (Interim), Division of Procurement and Contracts
LBohamera, Chief, Internal Audits and Investigations
RPILE, Office Chief, Division of Procurement and Contracts
LLOzoya, Chief, Policy, Division of Procurement and Contracts
GKong, Chief, Office of External Accounts Payable, Division of Accounting
KKimber, Branch Chief, Commodity and CAL-Card Payments, Division of Accounting
CBuhagiar, Chief, CAL-Card Payments Section, Division of Accounting
NFelcher, Audit Coordinator, Division of Accounting
KPruitt, Audit Coordinator, Division of Procurement and Contracts

KELLY TAKIGAWA

CLARK PAULSEN

August 31, 2010

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bc: PRivera, Audit Supervisor, Audits and Investigations

DDaily, Audit Supervisor, Audits and Investigations

CDa, Auditor, Audits and Investigations

RTakao, Project Control, Audits and Investigations

P3000-392
CAL-Card Transactions
August 2010

Gerald A. Long
Deputy Director
Audits and Investigations
California Department of Transportation

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Summary

Audits and Investigations (A&I) has completed a review of CAL-Card transactions for the period of April 2008 to March 2009, as required by the Memorandum of Understanding (MOU), dated January 1, 1998, with the State Controller's Office (SCO). The purpose of the review was to assess whether CAL-Card transactions are in compliance with applicable rules and regulations pertinent to procurement.

Our review disclosed that the CAL-Card transactions generally are in compliance with applicable rules and regulations pertinent to procurement, except for the following issues:

- CAL-Card Control Weaknesses.
- CAL-Card Prohibited/Restricted Use.
- Weaknesses Over Mandatory CAL-Card Training.
- Noncompliance to Record Retention Location Requirement.

Background

The State of California (Department of General Services) entered into a Master Services Agreement with U.S. Bank to provide government purchase cards to State agencies, including the Department of Transportation (Department). The resulting [Visa Card] contract is available to government/tax funded agencies and can be used to acquire goods and services, and is known as the CAL-Card program. The CAL-Card is an alternative payment method used in the procurement process of authorized goods and services by the Cardholder, whose name is embossed on the purchase card. Cardholders are assigned to an Approving Official who oversees each Cardholder's purchases.

The Department utilizes the CAL-Card program to purchase small dollar and high volume repetitive items. The program was designed to speed up the acquisition process by reducing paperwork and providing faster payment to suppliers. The Division of Procurement and Contracts (DPAC) is responsible for the administration of the CAL-Card program. DPAC appoints a CAL-Card Coordinator to serve as the contact throughout the Department to assist cardholders and approving officials with CAL-Card policies and procedures. The Division of Accounting (DofA), Office of External Accounts Payable (OEAP), assists DPAC with departmental CAL-Card compliance, and established the VISA Payments Unit to process CAL-Card payments.

The Department was granted a delegation of responsibility for the review and retention of CAL-Card program purchasing documentation by the SCO. The delegated authority is in the form of a CAL-Card Interagency Agreement and MOU dated January 1, 1998.

**Background
(Continued)**

The MOU mandates that CAL-Card transactions are subject to testing by either the departmental internal auditors or an external audit organization. A&I provides the review of the documentation for the Department.

To assist DPAC and OEAP, the Department implemented the Purchase Card Accounting & Requisition System (PCARS) in January 2000. PCARS helps to simplify the high volume of CAL-Card payments by reducing paperwork and processing time for CAL-Card purchases each month. In addition, PCARS was designed to produce several different ad hoc reports with helpful information about CAL-Card purchases made by cardholders. PCARS also helps the users electronically process a purchase request. As of March 2009, this system has been implemented in all districts with the exception of Equipment Shops. At the time of fieldwork, all Equipment Shops, except those in North Region were included in PCARS.

**Objectives,
Scope, and
Methodology**

The objective of the review was to determine if CAL-Card transactions comply with the CAL-Card handbook, and the MOU with SCO.

Conclusion

Our review disclosed that CAL-Card transactions generally comply with the CAL-Card Handbook, and the MOU with SCO, except for the following issues:

- CAL-Card Control Weaknesses.
- CAL-Card Prohibited/Restricted Use.
- Weaknesses Over Mandatory CAL-Card Training.
- Noncompliance to Record Retention Location Requirement.

**Views of
Responsible
Officials**

We requested a response from the Chiefs of DPAC and the DofA to the findings discussed in this report. The Chiefs, have, in general, acknowledged the findings and recommendations. Please see attachments for complete responses.

ORIGINAL SIGNED BY:

GERALD A. LONG
Deputy Director
Audits and Investigations

January 12, 2010
(Last Day of Field Work)

FINDINGS AND RECOMMENDATIONS

Finding 1 – CAL-Card Control Weaknesses

CAL-Card users are not properly following CAL-Card procedures, which resulted in control weaknesses that make the California Department of Transportation (Department) more susceptible to unauthorized purchases. We reviewed a sample of 1,469 PCARS and Shop CAL-Card transactions for the period of April 2008 through March 2009, and noted the following exceptions:

- 972 (66 percent) transactions did not have any written justification of purpose or identification of the benefit to the State, as required. CAL-Card Handbook Section 3.1 requires that Purchase Requests must include the justification for and the description of the requested merchandise or product, specifying the benefit to the State.
- 719 (49 percent) transactions did not have a “Received By” signature on the Purchase Request, as required. CAL-Card Handbook Section 3.7 requires that the person accountable for receipt must complete the “Received By” signature area on the Purchase Request. Caltrans Acquisition Manual Sections 7.1 and 7.2 requires that Department employees must validate the receipt of ordered goods or services, and receiving documents must be signed.
- 515 (35 percent) Purchase Requests were prepared six or more days after the purchase. It is noted that 629 (42.8 percent) Purchase Requests were prepared one or more days after the purchase. CAL-Card Handbook Section 3.1 requires that the purchase request be prepared prior to making the purchase or as soon as possible thereafter. The prior audit used five days as a reasonable timeframe for “as soon as possible thereafter.”
- 317 (22 percent) Purchase Request documents were not received in the Division of Accounting (DofA) by the eighth of the month, as required. CAL-Card Handbook Section 8.1 requires that the Statement of Account package (which includes a Purchase Request) be submitted no later than the eighth of the month, or on the last working day prior if the eighth falls on a weekend or holiday.
- 125 (9 percent) Purchase Request/Miscellaneous Transaction Documents (MTD) were not signed, as required. CAL-Card Handbook Section 3.1 requires that purchase requests must include the purchaser’s name and signature.
- 140 (10 percent) transactions did not have adequate supporting documentation, as required. Caltrans Acquisition Manual Section 8.1 requires that procurement files must include adequate documentation. In addition, the Memorandum of Understanding (MOU) between the Department and the State Controller’s Office (SCO), requires that the Department retain all documentation relative to CAL-Card purchasing

Finding 1
(Continued)

transactions and that the documentation be retained in a central location in Sacramento.

- 113 (8 percent) Purchase Request/MTD details did not match invoice details, as required. CAL-Card Handbook Section 3.5 requires that an itemized receipt or invoice must be obtained directly from the supplier. However, the Section is not clear whether the invoice should be itemized.
- 81 (6 percent) transaction invoices were not mathematically accurate. CAL-Card Handbook Section 6.1 requires the cardholder to review the Statement of Account for accuracy and match transactions with the Purchase Requests.

Cardholders are not following proper procedures in the CAL-Card Handbook. Noncompliance to the procedures continues to occur for four reasons: Some Cardholders are not understanding the importance in complying with the handbook procedures; Approving Officials are not catching the infractions in their reviews of the Statement of Accounts; DofA does not forward all procurement processing infractions to the Division of Procurement and Contracts (DPAC); and when they are forwarded, DPAC does not always process them timely to be able to take appropriate action against the cardholders. The DPAC CAL-Card Unit is understaffed and has other work priorities, which results in the delays in reviewing and applying corrective action.

The Department runs the risk of CAL-Card misuse, unauthorized purchases, and of losing CAL-Card purchasing authority from the Department of General Services (DGS) for the CAL-Card program.

However, DPAC has taken some positive management steps by creating a departmental CAL-Card Task Force on August 18, 2009, to address prior and continued CAL-Card issues. On September 14, 2009, the Chief Deputy Director sent an official memorandum to management on CAL-Card infractions, instructing them to appoint a CAL-Card liaison person in each program to disseminate and coordinate CAL-Card requirements and work to assure that the Cardholders' and Approving Officials' adhere to the Handbook procedures.

Recommendation

We recommend DPAC:

- Ensure compliance with the current CAL-Card Handbook.
- Revise the CAL-Card Handbook Section 3.5 to read that an "itemized" invoice be obtained directly from the supplier.
- Ensure that Cardholders and Approving Officials are properly trained on the importance of complying with the CAL-Card Handbook procedures.

**Recommendation
(Continued)**

- Ensure that timely reviews of possible unauthorized purchases are conducted.
- Continue working with the CAL-Card Liaison staff to better monitor and enforce the Handbook procedures.

We recommend DofA, Office of External Accounts Payable (OEAP) identify purchases not in compliance with the current CAL-Card Handbook; communicate them to DPAC; and return the purchase documentation to the Cardholder and Approving Official for correction.

DPAC's Response

DPAC responded, "DPAC will update the CCH section 3.5 advising CH's and AO's of the requirement to obtain an itemized invoice from the supplier in addition to reminding CH's and AO's of their responsibilities. DPAC currently holds monthly meetings with District/Division Liaisons to discuss current issues and changes or updates to as needed. In turn, the District/Division Liaisons are instructed to have monthly/quarterly meetings or communicate via email with their AO's and CH's to disseminate this information."

A&I Comment

DPAC should also ensure timely reviews of possible unauthorized purchases.

DofA's Response

The DofA responded, "We concur with this recommendation. As a result of the prior audit, Accounting had already reminded staff to review procedures related to signatures, mathematical accuracy of invoices, supporting documents, and continuing to forward those documents to Division of Procurement and Contracts (DPAC). However, we do not agree to send the purchasing documentation back to the Cardholder and Approving Official for correction. This documentation is provided to DPAC for follow-up."

A&I Comment

At a minimum, in lieu of returning purchasing documentation back to the Cardholder and Approving Official, the DofA should increase their effort to forward all procurement processing infractions to DPAC for follow-up. We do request that DofA reconsider returning non-compliant payment packages to the Cardholder for correction, especially in instances where the Cardholder is in a position to benefit from immediate feedback. For example, purchases requests that do not contain written justification, purchase requests that have no signature affirming the goods/services have been received, purchase requests that were not signed by the requestor, payment packages that are missing required documentation such as IT certification, and itemized receipts or invoices. We believe that providing immediate feedback to Cardholders is an essential element in increasing compliance with CAL-Card requirements and that DofA is in the best position to provide this feedback.

Finding 2
CAL-Card
Prohibited/
Restricted Use

CAL-Card transactions were not in compliance with the CAL-Card Handbook, Prohibited/Restricted Use. From the sample of 1,469 transactions, we noted 229 (16 percent) exceptions. For example:

- 133 (9 percent) split purchases, where two or more transactions were processed to avoid the \$4,999.99 single transaction limit.
- 22 (1.5 percent) invoices for services that should have been reimbursed through a service contract.
- 11 (0.7 percent) past due invoices.
- 8 (0.5 percent) prepaid invoices.
- 9 of 24 (37.5 percent) transactions in which the freight exceeded \$50 without documentation of actual charges.
- 27 of 28 (96.4 percent) transactions that were applicable Information Technology (IT) purchases were not properly approved by HQ IT or DPAC.
- 22 of 29 (75.9 percent) transactions that were applicable did not comply with California Strategic Sourcing Initiative regulations.

Cardholders are not following proper procedures in the CAL-Card Handbook, Chapter 5. Noncompliance to the procedures continues to occur for the same reasons indicated in Finding 1.

Again, the Department runs the risk of CAL-Card misuse, unauthorized purchases, and of losing CAL-Card purchasing authority from DGS for the CAL-Card program.

Recommendation

We recommend DPAC:

- Ensure compliance with the current CAL-Card Handbook.
- Ensure that Cardholders and Approving Officials are properly trained on the importance of complying with the CAL-Card Handbook procedures.
- Ensure that timely reviews of possible unauthorized purchases are conducted.
- Continue working with the CAL-Card Liaison staff to better monitor and enforce the Handbook procedures.

We recommend DofA, OEAP identify purchases not in compliance with the current CAL-Card Handbook; communicate them to DPAC; and return the purchase documentation to the Cardholder and Approving Official for correction.

DPAC's Response	DPAC responded, "DPAC has established performance measures for the timely review of prohibited purchases and eliminated its 19 month backlog. New online training was developed and implemented on May 1, 2010. DPAC currently holds monthly meetings with District/Division Liaisons to ensure early resolution of any problems and quick dissemination of changes. In turn, the District/Division Liaisons are instructed to have monthly/quarterly meetings or communicate via email with their AO's and CH's to pass on the information in an effort to help prevent prohibited purchases from being processed."
A&I Comment	DPAC should also ensure timely reviews of possible unauthorized purchases.
DofA's Response	DofA responded, "Accounting follows the recommendation. For non-compliant purchases identified, we communicate them to DPAC. In addition, we do not agree to send the purchasing documentation back to the Cardholder and Approving Official for correction. This documentation is provided to DPAC for follow-up."
A&I Comment	At a minimum, in lieu of returning purchasing documentation back to the Cardholder and Approving Official, the DofA should increase their effort to forward all procurement processing infractions to DPAC for followup. We do request that DofA reconsider returning non-compliant payment packages to the Cardholder for correction, especially in instances where the Cardholder is in a position to benefit from immediate feedback. For example, past due invoices, prepaid invoices, payment packages that are missing documentation such as; documentation of freight in excess of \$50, and IT certifications. We believe that providing immediate feedback to Cardholders is an essential element in increasing compliance with CAL-Card requirements and that DofA is in the best position to provide this feedback.
Finding 3 – Weaknesses Over Mandatory CAL-Card Training	<p>Mandatory CAL-Card training is not always being completed. As of November 2009, we determined that 22 percent (404 of 1,783) of active Cardholders and 35 percent (315 of 895) of active Approving Officials had not completed the mandatory CAL-Card Training refresher course as required by the CAL-Card Handbook Section 1.13. This lack of training increases the risk of improper CAL-Card usage.</p> <p>In addition, the CAL-Card Users database is not being updated on a current basis. Based on a sample of 36 Cardholders and 18 Approving Officials, six (17 percent) and two (11 percent), respectively were inactive. This lack of current information increases the risk of inactive CAL-Card users making improper purchases.</p>

Finding 3 (Continued)	The DPAC CAL-Card Unit is understaffed and has other work priorities, which result in delays in monitoring training and user status. As a result, the Department runs the risk of unauthorized purchases and of losing CAL-Card purchasing authority from DGS for the CAL-Card program. In addition, the potential exists for CAL-Card misuse.
Recommendation	We recommend the DPAC CAL-Card Unit enforce the training requirements, and properly maintain the CAL-Card Users database.
DPAC's Response	DPAC responded, "New online training was developed and implemented on May 1, 2010. All CH's and AO's have taken the training and submitted new applications, ethics certificates, and training certificates as of July 1, 2010. The CAL-Card user database was updated on July 15, 2010, resulting in DPAC eliminating twenty six percent of all open accounts, of which, nineteen percent were terminated as a result of the training requirement."
Finding 4 – Noncompliance to Record Retention Location Requirement	<p>The Department is noncompliant to the SCO CAL-Card MOU record retention location requirement.</p> <p>The MOU specifies that all original CAL-Card documentation be retained in a central location in Sacramento, while the CAL-Card Handbook requires certain items to be retained in a central location in each Division or District.</p> <p>The location of CAL-Card original supporting documentation is inconsistent within the Department. The instructions in the CAL-Card Handbook conflict with the requirements of the MOU.</p> <p>Noncompliance with the MOU puts the Department at risk of losing the delegation of responsibility for review and retention of CAL-Card program purchasing documentation from SCO.</p>
Recommendation	We recommend DofA coordinate with SCO to determine the most practical and acceptable means for retaining the original documents, and revise the MOU and CAL-Card Handbook, accordingly.
DofA's Response	DofA responded, "We concur with this recommendation. Since August 13, 2009, we have made numerous requests to the State Controller's Office (SCO) regarding our proposed Memorandum of Understanding revisions, including a revision to address the retention of supporting documentation. SCO has responded to the proposed revision related to this finding. We will continue to inquire with SCO in this matter."

DPAC's Response DPAC responded, "DPAC supports DofA's actions to change the MOU. DPAC is currently working with DofA to draft language to allow for documentation to be retained by the procuring division and districts. The CAL-Card Handbook will be updated to reflect changes in the MOU accordingly."

Audit Team Laurine Bohamera, Chief, Internal Audits
Paula Rivera, Audit Supervisor
Don Daily, Auditor
Chantha Da, Auditor

ATTACHMENT 1

DIVISION OF PROCUREMENT AND CONTRACT'S
RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Audits and Investigations

Date: July 29, 2010

File: P3000-392

ORIGINAL SIGNED BY:

From: WILLIAM FACKENTHALL, Chief
Division of Procurement and Contracts

Subject: Division of Procurement and Contracts Response to CAL-Card Transaction Review Draft Report dated June 21, 2010.

Finding 1 – CAL-Card Control Weaknesses

CAL-Card users are not properly following CAL-Card procedures, transactions were not signed, nor have adequate supporting documentation. In addition, Statement of Account transaction invoices did not match purchase requests invoices, written justification identifying the benefit to the State "Received By" signature on the Purchase Request were missing, and Purchase Request were being prepared one or more days after the purchase and submitted to Division of Accounting (DofA) after the eighth of the month.

Audits Recommendations are:

- Ensure compliance with the current CAL-Card Handbook (CCH).
- Revise the CAL-Card Handbook Section 3.5 to read that an "itemized" invoice be obtained directly from the supplier.
- Ensure that Cardholders and Approving Officials are properly trained on the importance of complying with the CAL-Card Handbook procedures.
- Ensure that timely reviews of possible unauthorized purchases are conducted.
- Continue working with the CAL-Card Liaison staff to better monitor and enforce the Handbook procedures.

DPAC Response

DPAC will update the CCH section 3.5 advising CHs and AOs of the requirement to obtain an itemized invoice from the supplier in addition to reminding CHs and AOs of their responsibilities. DPAC currently holds monthly meetings with District/Division Liaisons to discuss current issues and changes or updates as needed. In turn, the District/Division Liaisons are instructed to have monthly/quarterly meetings or communicate via e-mail with their AOs and CHs to disseminate this information.

Finding 2 –CAL-Card Prohibited/Restricted Use

CAL-Card transactions were not in compliance with the CAL-Card Handbook, Prohibited/Restricted Use. Information Technology (IT) purchases were not properly approved by HQ IT or DPAC. Applicable Split purchases transactions did not comply with California Strategic Sourcing Initiative regulations

Audits Recommendations are:

- Ensure compliance with the current CAL-Card Handbook.
- Ensure that Cardholders and Approving Officials are properly trained on the importance of complying with the CAL-Card Handbook procedures.
- Ensure that timely reviews of possible unauthorized purchases are conducted.
- Continue working with the CAL-Card Liaison staff to better monitor and enforce the Handbook procedures.

DPAC Response

DPAC has established performance measures for the timely review of prohibited purchases and eliminated its 19 month backlog. New online training was developed and implemented on May 1, 2010. All CHs and AOs have taken the required training and submitted new applications, and ethics certificates and training certificates as of July 1, 2010. DPAC currently holds monthly meetings with District/Division Liaisons to ensure early resolution of any problems and quick dissemination of changes. In turn, the District/Division Liaisons are instructed to have monthly/quarterly meetings or communicate via e-mail with their AOs and CHs to pass on the information in an effort to help prevent prohibited purchases from being processed.

Finding 3 – Weaknesses over Mandatory CAL-Card Training

Mandatory CAL-Card training is not always being completed. Active Cardholders and Approving Officials had not completed the mandatory CAL-Card Training refresher course as required by the CAL-Card Handbook Section 1.13. In addition, the CAL-Card Users database is not being updated on a current basis

Audits Recommendations are:

- We recommend the DPAC CAL-Card Unit enforce the training requirements, and properly maintain the CAL-Card Users database.

DPAC Response:

New online training was developed and implemented on May 1, 2010. All CHs and AOs have taken the new training and submitted new applications, ethics certificates, and training certificates as of July 1, 2010. The CAL-Card user database was updated on July 15, 2010,

resulting in DPAC eliminating twenty six percent of all open accounts, of which, nineteen percent were terminated as a result of the training requirement.

Finding 4 – Noncompliance to Record Retention Location Requirement

The Department is noncompliant to the SCO CAL-Card MOU record retention location requirement. The location of CAL-Card original supporting documentation is inconsistent within the Department. The instructions in the CAL-Card Handbook conflict with the requirements of the MOU

Audits Recommendation is:

- We recommend DofA coordinate with SCO to determine the most practical and acceptable means for retaining the original documents, and revise the MOU and CAL-Card Handbook, accordingly.

DPAC Response:

DPAC supports DofA actions to change the MOU. DPAC is currently working with DofA to draft language to allow for documentation to be retained by the procuring division and districts. The CAL-Card Handbook will be updated to reflect changes in the MOU accordingly.

Please contact Louise Lozoya if you have any questions or concerns at (916) 227-6012 or email Louise.lozoya@dot.ca.gov.

- c: KTakigawa, Assistant Division Chief, IT Acquisitions and Operations
MRetike, Assistant Division Chief, Non-IT Services and Commodities
RPile, Office Chief, Acquisitions
PRivera, Audit Supervisor
CSmith, Branch Chief of Acquisitions
LLozoya, Branch Chief of Policy
CPaulsen, Chief Division of Accounting
KKimber, Branch Chief, Commodity & Cal-Card Payments

ATTACHMENT 2

DIVISION OF ACCOUNTING'S
RESPONSE TO THE DRAFT REPORT

Memorandum

*Flex your power!
Be energy efficient!*

To: GERALD A. LONG
Deputy Director
Division of Audits and Investigation

Date: August 12, 2010

File: P3000-392

From: CLARK PAULSEN **ORIGINAL SIGNED BY:**
Chief
Division of Accounting

Subject: CAL-Card Transactions Review Audit - P3000-392

The Division of Accounting (Accounting) received the Draft Audit Report, CAL-Card Transactions Review Audit – P3000-392, dated June 21, 2010. Please note that we did not receive the final report of the prior audit (P3000-380) until June 9, 2010. The current audit (P3000-392) covered the period of April 08, 2009 – March 09, 2010. Since we did not receive the final report of the prior audit until after the conclusion of the period covered by this current audit, there are similar findings. The following is our response to this audit's findings:

Finding 1 – CAL-Card Control Weaknesses

We concur with this recommendation. As a result of the prior audit, Accounting had already reminded staff to review procedures related to signatures, mathematical accuracy of invoices, supporting documents, and continuing to forward these documents to Division of Procurement and Contracts (DPAC). However, we do not agree to send the purchasing documentation back to the Cardholder and Approving Official for correction. This documentation is provided to DPAC for follow-up.

Finding 2 – CAL-Card Prohibited Restricted Use

Accounting follows the recommendation. For non-compliant purchases identified, we communicate them to DPAC. In addition, we do not agree to send the purchasing documentation back to the Cardholder and Approving Official for correction. This documentation is provided to DPAC for follow-up.

Finding 4 – Noncompliance to Record Retention Location Requirement

We concur with this recommendation. Since August 13, 2009, we have made numerous requests to the State Controller's Office (SCO) regarding our proposed Memorandum of Understanding revisions, including a revision to address the retention of supporting documents. SCO has responded to the proposed revision related to this finding. We will continue to inquire with SCO in this matter.

GERALD A. LONG

August 12, 2010

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Should you have any questions regarding this response, please contact Katrina Kimber at (916)227-9055.

c: NOrtega, Chief Financial Officer

GKong, Chief – Office of External Accounts Payable, Division of Accounting

KKimber, Chief – Commodity & CAL-Card Payments Branch, Division of Accounting

NFelcher, Audit Coordinator - Division of Accounting

RTakao, Audit Coordinator - Division of Audits & Investigation